

**Financial Statements**

**Shiawassee County Community  
Mental Health Services Authority**

*September 30, 2006*



## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Shiawass County Comm Mental Health	County Shiawassee
Fiscal Year End September 30, 2006	Opinion Date January 4, 2007	Date Audit Report Submitted to State March 26, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

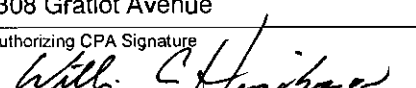
YES  
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Roslund, Prestage & Company, PC		Telephone Number 989-463-6123	
Street Address 308 Gratiot Avenue		City Alma	State MI
		Zip 48801	
Authorizing CPA Signature 	Printed Name William C. Hirschman		License Number 1101016179

Shiawassee County Community Mental Health Services Authority  
Table of Contents  
September 30, 2006

---

**Independent Auditor's Report**

**Management's Discussion and Analysis** I-VIII

**Basic Financial Statements**

Government-wide Financial Statements:

Statement of Net Assets 1

Statement of Activities 2

Fund Financial Statements:

Balance Sheet – Governmental Funds 3

Reconciliation of Fund Balances on the Balance Sheet for  
Governmental Funds to Net Assets of Governmental  
Activities on the Statement of Net Assets 4

Statement of Revenues, Expenditures and Changes in Fund  
Balances – Governmental Funds 5 - 6

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Funds to the  
Statement of Activities 7

Statement of Net Assets – Proprietary Funds 8

Statement of Revenues, Expenses and Changes in Fund  
Net Assets – Proprietary Funds 9

Statement of Cash Flows – Proprietary Funds 10

Notes to the Financial Statements 11-29

**Required Supplemental Information**

Budgetary Comparison Schedules 30-31

**Other Supplemental Information**

Individual Fund Statements

Statement of Personnel Expenditures 32

Statement of Operating Expenditures 33

**Government Auditing Standards Report** 34-35



## INDEPENDENT AUDITOR'S REPORT

Shiawassee County Community Mental Health Services Authority  
Owosso, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shiawassee County Community Mental Health Services Authority (the Authority) as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Authority as of September 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 4, 2007, on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Roslund, Prestage & Company, P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

January 4, 2007

## **MANAGEMENT DISCUSSION AND ANALYSIS**

# SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## **Management's Discussion and Analysis**

*For the year ended September 30, 2006*

This section of the Shiawassee County Community Mental Health Authority (The Authority) annual financial report presents management's discussion and analysis of financial performance for the year ended September 30, 2006. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities, and to identify significant changes in financial position and results of operations. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

During fiscal 2006, the Authority continued its affiliation with Bay Arenac Behavioral Health Authority and to received Medicaid revenue as a subcontractor providing direct care services. Bay Arenac Behavioral Health Authority is the designated PIHP for a region consisting of Arenac, Bay, Huron, Montcalm, Tuscola and Shiawassee counties. The Authority subcontracts for Medicaid funding through the PIHP while State general fund revenue and other grants and earned contracts continue to be sourced directly from the state.

The basic financial statements contained in this annual financial report are presented in comparison to the prior years. This will help provide a context for the reader and assist in understanding the financial position of the Authority.

### **FINANCIAL HIGHLIGHTS**

- The current financial position, which is the excess of current assets over current liabilities, of SCCMHA was a positive \$2.5 million.
- Unrestricted net assets decreased by 6 thousand from FY06

### **OPERATING HIGHLIGHTS**

- Shiawassee County Community Mental Health Authority continues its commitment to the consumers of Shiawassee County.
- During the year there was one significant change in key employees of the Agency. Anthony Ferzo, the CFO for the past 7 years resigned in September,

# SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## Management's Discussion and Analysis

*For the year ended September 30, 2006*

---

2006. After his resignation, the duties of the CFO were reassigned as described in the Future Outlook section of this report.

- During the year research and planning began for the acquisition of a new facility to house the operations of the Agency. As leases on the M-21 and M-52 location expire, these operations will be consolidated into one facility which will be purchased by the Authority.
- Property at 1555 Industrial Drive in Owosso Michigan has been selected for purchase and assessment, inspection, financing and other planning continued through out FY06. Acquisition of the new facility should be completed in FY07 and a fall 07 move-in date is tentatively planned.
- The Michigan Department of Community Health, Division of Quality Management and Planning conducted a site review of the Access Alliance of Michigan PIHP in October 2006. The Alliance faired well in this audit with a composite score of 362 out of a possible 420 points.

## **OVERVIEW OF FINANCIAL STATEMENTS**

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are agency-wide financial statements and fund financial statements.

**Agency-wide financial statements** include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

**Fund financial statements** contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the agency-wide statements. The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as expenditure. Fund financial statements are essentially identical in presentation, format and content to prior year annual financial reports.



# SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## Management's Discussion and Analysis

For the year ended September 30, 2006

Fund financial statements are divided into two categories. These are governmental fund financial statements and proprietary fund financial statements.

Governmental fund financial statements show how the community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements show internal service funds reserved for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

### **SUMMARY OF NET ASSETS**

The following summarizes the assets, liabilities and net assets on an agency-wide basis as of September 30, 2006 and 2005.

#### **Summary of Net Assets**

As of September 30, 2006 and 2005

(In \$000s)

	<u>2006</u>	<u>2005</u>	<u>\$ Change</u>
<b><u>Assets</u></b>			
Current assets	\$ 3,972	\$ 4,795	\$ (823)
Restricted assets	603	585	\$ 18
Capital assets	183	277	\$ (94)
<b>Total assets</b>	<b><u>4,758</u></b>	<b><u>5,657</u></b>	<b><u>(899)</u></b>
<b><u>Liabilities</u></b>			
Current liabilities	1,432	2,220	\$ (787)
Noncurrent liabilities	179	241	\$ (62)
<b>Total liabilities</b>	<b><u>1,611</u></b>	<b><u>2,460</u></b>	<b><u>(849)</u></b>
<b><u>Net Assets</u></b>			
Investment in capital assets	164	156	\$ 8
Restricted for risk management	79	132	\$ (53)
Unrestricted	2,903	2,908	\$ (5)
<b>Total net assets</b>	<b><u>\$ 3,146</u></b>	<b><u>\$ 3,196</u></b>	<b><u>\$ (50)</u></b>
Current Position	2,540	2,575	(35)

**Current financial position** is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

## SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

### Management's Discussion and Analysis

*For the year ended September 30, 2006*

---

The current financial position (excess of current assets over current liabilities) was a positive \$2.5 million, a decrease of \$35 thousand or 1%, compared to prior year.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others and deferred revenue.

At year-end, current assets include \$1,128,083 of additional Medicaid funding for fiscal 2006. This additional funding was made available by the affiliation to fund the full cost of Medicaid supports and services in the Shiawassee county local service area.

Also at year-end, \$53,859 of state general fund formula funding remained unspent and that full amount will be carried forward as deferred revenue into fiscal 2007.

**Restricted assets** consist of cash, investments and accrued interest receivable. These assets are restricted for payment of compensated absences and restricted for risk management. Restricted assets of \$602,546 thousand have increased by \$18 thousand as a result of the change in the amount of compensated absences due to employees but not yet used at the end of FY2006.

Included in this category are assets restricted for capital purposes or funded depreciation in the amount of \$369 thousand. As described in the Michigan Mental Health Code, these funds are intended to preserve a source of funds for capital asset acquisition and liquidation of capital related debt. Annual funding of this account is not to exceed the amount of depreciation expense and the maximum amount of this account is not to exceed the total of accumulated depreciation on capital assets. For fiscal 2006, the Authority did not make additional contributions to the Capital Reserve Fund.

The assets restricted for risk management are related to the risk obligations of the state general fund (formula funds) risk contract still maintained directly with the state. At year-end, the balance was \$104,956 and is fully funded to its contractual maximum annual risk exposure of 7.5% of the funds at risk.

**Capital assets** consist of property and equipment having an estimated useful life of more than one year. These were previously reported in the general fixed asset account group. Under the provisions of GASB 34, these assets are now included on the statement of net assets at their original book value, restated to be net of the accumulated depreciation that would have otherwise been reported in prior years. As of the beginning of fiscal 2006, capital assets having an original book value of \$2.52 million were recorded, net of restated accumulated depreciation of \$2.24 million, for a beginning net book value of \$277 thousand.

In fiscal 2006, \$75 thousand was expended for capital acquisitions. These acquisitions included vehicles, office equipment and furniture. There were no significant disposals of assets. Depreciation expense on previously existing and newly acquired capital assets was \$170 thousand. The net change in capital assets was a decrease of \$94 thousand for the year. When capital expenditures exceed depreciation expense, the net increase represents an investment or expansion of capital resources. Conversely, a net decrease represents a reduction in capital resources available for the future.

# SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## Management's Discussion and Analysis

*For the year ended September 30, 2006*

---

As of year-end, the net book value of capital assets was 7% of the original book value. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

**Noncurrent liabilities** Long-term debt related to the acquisition of capital assets (new capital lease liability) was paid in full at the end of FY 2006. Principal payments for the year were \$18 thousand. The liability for compensated absences includes vested paid time off.

**Restricted net assets** include investment in capital assets, net of related debt and for risk management. These were discussed above.

**Unrestricted net assets** at the end of the year were \$2.90 million, a decrease of \$6 thousand or less than 0.02% for the year. Unrestricted net assets were 61.0% of total assets, up 10% from the prior year.

# SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## Management's Discussion and Analysis

For the year ended September 30, 2006

### **SUMMARY OF ACTIVITIES**

The following summarizes the revenue, expenses and change in net assets on an agency-wide basis for the years ended September 30, 2006, and 2005.

	2006	2005	Change	% Change
<b><u>Revenue</u></b>				
Medicaid specialty supports and services	\$ 9,885	\$ 9,847	\$ 38	0.4%
State general fund priority populations	1,714	1,682	32	1.9%
Adult Benefits Waiver program	230	231	(1)	-0.4%
Program service revenue	188	188	-	0.0%
Grants and earned contracts	122	202	(80)	-39.6%
County appropriation	200	200	-	0.0%
Interest income	92	56	36	64.3%
Other local income	141	160	(19)	-11.9%
Transfers	56	-	56	0.0%
Total revenue	12,628	12,566	62	0.5%
<b><u>Expense</u></b>				
Personnel expense	5,734	7,203	(1,469)	-20.4%
Operating expense	6,501	4,842	1,659	34.3%
Local funds contributed to State	164	164	-	0.0%
Debt service	109	109	-	0.0%
Depreciation	170	238	(68)	-28.6%
Total expense	12,678	12,556	122	1.0%
<b>Excess of revenue over expense</b>	<b>(50)</b>	<b>10</b>	<b>(60)</b>	<b>-584.8%</b>
Prior Period Adjustments	-	(469)	-	0.0%
<b>Change in net assets</b>	<b>\$ (50)</b>	<b>\$ (459)</b>	<b>\$ 409</b>	<b>-89.2%</b>

**Excess of revenue over (under) expenses** from activities for the current year was (\$50) thousand or (0.4%) of revenue. This is a decrease of \$224 thousand from the prior year surplus of \$174 thousand.

**Prior Period Adjustments** were made that related to the FY05 refund to a consumer in the amount of \$498 thousand. This refund subsequently resulted in an ability to pay for services delivered in FY05 in the amount of \$15 thousand.

**SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**  
**Management's Discussion and Analysis**  
*For the year ended September 30, 2006*

---

**Revenue** for the year was \$12.628 million, a decrease of \$62 thousand or less than 0.5% from the prior year.

**Medicaid specialty supports and services revenue** represents 78.3% of total revenue and increased \$38 thousand or 0.4% compared to the prior year. This increase is attributed to an increase in the demand for Medicaid services and increases in overall agency costs. As previously discussed, the source of Medicaid specialty supports and service revenues is Bay Arenac Behavioral Health the PIHP and as previously discussed \$38 thousand of the increase was additional funding provided to the Authority by the PIHP affiliation. This subcontract is on a net cost not to exceed basis.

**State general fund priority population revenue** (formula funding) represents 13.6% of total revenue and increased \$32 thousand or 1.9% compared to the prior year. The General Fund revenue is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. There were \$54 thousand of current year funds deferred to next year and there was no lapse of state general funds to MDCH in the current year.

**Adults Benefit Waiver (ABW)** ABW represents 1.8% of total revenue. Of note is that any unspent balance of the ABW allocation becomes local funds.

**Program service revenue** includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. These represent 1.5% of total revenue and have remained unchanged from the prior year.

**Grants and earned contract revenue** includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 0.9% of total revenue and have decreased \$80 thousand or 38% from the prior year.

County appropriation revenue, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 3.4% of revenue and have increased \$17 thousand or 4.0% from the prior year.

Total expenses of \$12.6 million has increased \$122 thousand or 1.0% compared to the prior year. Personnel expense is 45.2% of total expense and has decreased \$1.469 thousand or 20.4%. Operating expense is 51.3% of total expense and has increased \$1.659 million or 34.3%.

## **FUTURE OUTLOOK**

- Once again, the State of Michigan is struggling to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding. The effect of these on future funding for community mental health and specialty supports and services is unknown.
- Management expects revenue to be flat at best. Support and service demand is expect to increase together with inflationary cost pressures.

## SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

### Management's Discussion and Analysis

*For the year ended September 30, 2006*

---

- Subsequent to the resignation of the CFO, an evaluation of the finance department took place and significant changes in the organization of that department followed. The decision was made not to replace the CFO, but to create the position of Finance Director, eliminate the position of Finance Manager and use an outside contracting firm to provide contract management services and financial statement support.
- At the end for FYE 2006 the CEO initiated a process to review and revise all financial policies and procedures to ensure that appropriate internal controls are in place. The process is expected to be complete in June, 2007.
- As resources become scarce, creative and actuarially sound funding allocation methods will be used to appropriately distribute Medicaid funds throughout the region. Given the potential future shortfall of Medicaid funds, the Authority will continue to pursue cost reduction and or cost containment strategies.
- Integration models between mental health and medical health care are being developed around the county. Agency staff is working with local healthcare providers to develop models of care to meet the needs of our community. It has been demonstrated that by implementing integrated care models medical costs can be decreased by up to 20 % and limited community mental health resources can be preserved for people with the most severe forms of illnesses and disabilities. This will be an area of priority for the Authority over the next two years.

As always, questions, comments and suggestions are welcomed from interested parties and the general public. These can be directed to management.

**GOVERNMENT-WIDE  
FINANCIAL STATEMENTS**

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2006 AND 2005

	Governmental Activities	
	2006	2005
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$2,568,963	\$2,812,871
Accounts receivable, net	188,347	160,331
Due from other governmental units	1,128,083	1,740,863
Prepaid expenses	86,847	80,692
Total current assets	3,972,240	4,794,757
Noncurrent assets		
Cash and cash equivalents - restricted	602,546	584,621
Capital assets - depreciable, net	182,748	277,220
Total noncurrent assets	785,294	861,841
Total assets	4,757,534	5,656,598
<b>Liabilities</b>		
Current liabilities		
Accounts payable	1,028,860	749,845
Deferred revenue	95,633	101,934
Due to other governmental units	145,965	105,867
Accrued wages and other payroll liabilities	143,822	1,158,627
Current portion of capital lease	18,155	103,347
Noncurrent liabilities		
Compensated absences	178,904	222,879
Capital Lease	-	17,998
Total liabilities	1,611,339	2,460,497
<b>Net Assets</b>		
Invested in capital assets, net of related debt	164,593	155,875
Restricted for:		
Risk management	79,122	132,120
Unrestricted	2,902,480	2,908,106
Total net assets	\$3,146,195	\$3,196,101

The notes to the financial statements are an integral part of this statement.



SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2006, WITH COMPARATIVE DATA

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2005
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$12,461,868</u>	<u>\$10,072,345</u>	<u>\$2,345,261</u>	(\$44,262)	\$3,687
General revenues					
Unrestricted investment earnings				92,725	55,545
Restricted investment earnings				3,356	1,886
Rents				<u>62,014</u>	<u>66,140</u>
Total general revenues and contributions				158,095	123,571
Transfers to affiliates				<u>(163,739)</u>	<u>(163,739)</u>
Change in net assets				(49,906)	(36,481)
Net assets - beginning of year				3,196,101	3,701,068
Prior period adjustment				<u>-</u>	<u>(468,486)</u>
Net assets - end of year				<u>\$3,146,195</u>	<u>\$3,196,101</u>

The notes to the financial statements are an integral part of this statement.

## **FUND FINANCIAL STATEMENTS**

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2006 AND 2005

	General Fund	
	2006	2005
<b>Assets</b>		
Current Assets		
Cash And Investments	\$2,568,963	\$2,812,871
Accounts Receivable	188,347	160,331
Due From Other Governmental Units	1,128,083	1,740,863
Prepaid Expenses	86,847	80,692
Cash and Cash Equivalents - Restricted	602,546	584,621
<b>Total Assets</b>	<b>\$4,574,786</b>	<b>\$5,379,378</b>
<b>Liabilities</b>		
Accounts Payable	\$1,028,860	\$749,845
Deferred Revenue	95,633	101,934
Due To Other Funds	104,956	132,120
Due To Other Governmental Units	145,965	105,867
Accrued Wages & Other Payroll Liabilities	143,822	1,158,627
<b>Total Liabilities</b>	<b>1,519,236</b>	<b>2,248,393</b>
<b>Fund Balance</b>		
Reserved For:		
Prepaid Expenses	86,847	80,692
Unreserved:		
Designated For Capital Purposes	369,964	359,189
Undesignated	2,598,739	2,691,104
<b>Total Fund Balances</b>	<b>3,055,550</b>	<b>3,130,985</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$4,574,786</b>	<b>\$5,379,378</b>

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET  
FOR GOVERNMENTAL FUNDS  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

---

Total fund balance - governmental funds	\$3,055,550
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: Capital assets	2,595,094
Deduct: Accumulated depreciation	(2,412,346)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: Net assets of governmental activities accounted for in the internal service fund	104,956
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: Capital lease	(18,155)
Deduct: Compensated absences	(178,904)
Net assets of governmental activities	<u><u>\$3,146,195</u></u>

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDING SEPTEMBER 30, 2006 AND 2005

	General Fund	
	2006	2005
<b>REVENUES</b>		
State Grants		
State General Fund - DCH Contract	\$1,713,854	\$1,682,185
Adult Benefit Waiver	229,652	231,265
MI Child	14,414	13,107
Tobacco Tax	5,485	10,214
PATH Homeless Housing	1,930	2,315
Title XX	7,277	7,277
Total State Grants	<u>1,972,612</u>	<u>1,946,363</u>
Federal Grants		
Wraparound	87,461	87,461
Drop-In Center	6,660	-
Respite Services	2,398	-
Mental Health Block Grant	-	75,000
PAS / ARR	6,300	13,729
Total Federal Grants	<u>102,819</u>	<u>176,190</u>
Contributions - Local Units		
County Appropriation	200,000	200,000
Charges For Services		
Medicaid - Affiliate Contract	9,884,690	9,847,441
Client And Third Party Pay	187,655	188,364
Total Charges For Services	<u>10,072,345</u>	<u>10,035,805</u>
Interest And Rents		
Rents	62,014	66,140
Interest	92,725	55,545
Total Interest And Rents	<u>154,739</u>	<u>121,685</u>
Other Revenue	<u>69,830</u>	<u>87,065</u>
 Total Revenues	 12,572,345	 12,567,108

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDING SEPTEMBER 30, 2006 AND 2005

	General Fund	
	2006	2005
<b>EXPENDITURES</b>		
Health & Welfare - Mental Health		
Personnel Costs	\$5,734,409	\$7,202,552
Operating Expenditures	6,595,504	4,988,328
Debt Service - Principal	103,190	95,805
Debt Service - Interest	5,930	13,216
Capital Outlay	75,528	93,665
Total Expenditures	<u>12,514,561</u>	<u>12,393,566</u>
Excess Of Revenues Over Expenditures	57,784	173,542
Other Financing Sources (Uses)		
Operating Transfers In (Out) - Transfers To Affiliates	(163,739)	(163,739)
Operating Transfers In (Out) - Internal Service Fund	30,505	-
Excess Of Revenues And Other Sources Over Expenditures And Other Uses	(75,450)	9,803
Fund Balance, October 1	3,130,985	3,590,220
Prior Period Adjustment	<u>15</u>	<u>(469,038)</u>
Fund Balance, September 30	<u>\$3,055,550</u>	<u>\$3,130,985</u>

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Net change in fund balances - total governmental funds	(\$75,450)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: Capital outlay	75,528
Deduct: Depreciation expense	(170,000)
Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	
Add: Principal paid on capital lease	103,190
Add: Reduction in compensated absences	43,975
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.	
Add: Interest income from governmental internal service fund	3,356
Deduct: Transfer in from internal service fund	(30,505)
Change in net assets of governmental activities	<u><u>(\$49,906)</u></u>

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COMMUNITY MENTAL HEALTH SERVICES AUTHORITY  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2006 AND 2005

---

		Internal Service Fund	
		2006	2005
<b>Assets</b>			
Due From Other Funds		<u>\$104,956</u>	<u>\$132,120</u>
<b>Net Assets</b>			
Restricted For Risk Management		<u>\$104,956</u>	<u>\$132,120</u>
<b>Total Liabilities And Net Assets</b>		<u>\$104,956</u>	<u>\$132,120</u>

The notes to the financial statements are an integral part of this statement.



SHIAWASSEE COMMUNITY MENTAL HEALTH SERVICES AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEARS ENDING SEPTEMBER 30, 2006 AND 2005

	Internal Service Fund	
	2006	2005
<b>Non-Operating Revenue</b>		
Interest Income	\$3,356	\$1,886
<b>Operating Transfers</b>		
Operating Transfers Out - General Fund	(30,505)	-
Net Income	(27,149)	1,886
Net Assets, Beginning of Year	132,120	129,682
Prior Period Adjustment	(15)	552
Net Assets, End of Year	<u>\$104,956</u>	<u>\$132,120</u>

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COMMUNITY MENTAL HEALTH SERVICES AUTHORITY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEARS ENDING SEPTEMBER 30, 2006 AND 2005

	Internal Service Fund	
	2006	2005
Adjustment To Reconcile Net Income To Net Cash Provided By Operating Activities:		
(Increase) Decrease In:		
Due From Other Funds, Net of Prior Period Adjustment	\$27,164	(\$1,886)
Net Cash Provided (Used) From Operating Activities	27,164	(1,886)
Cash Flows From Investing Activities		
Non-Operating Revenue		
Interest Income	3,356	1,886
Cash Flows From Capital and Related Financing Activities		
Operating Transfers Out - General Fund	(30,505)	-
Net Increase In Cash And Cash Equivalents	15	-
Cash And Cash Equivalents, October 1	-	-
Prior Period Adjustment	(15)	-
Cash And Cash Equivalents, September 30	-	-
Reconciliation of Operating Income To Net Cash Provided By (Used For) Operating Activities:		
Operating Income (Loss)	NA	NA

The notes to the financial statements are an integral part of this statement.

## **NOTES TO THE FINANCIAL STATEMENTS**

Shiawassee County Community Mental Health Authority  
Notes to the Financial Statements

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Shiawassee County Community Mental Health Authority (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

**Reporting Entity**

The Authority operates under the provisions of Act 258- Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Shiawassee who meet eligibility and other criteria.

As the community mental health services provider for Shiawassee County, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority.

Based on the application of the criteria, the Authority does not contain any component units.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Shiawassee County Community Mental Health Authority  
Notes to the Financial Statements

---

The Statement of Activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Government-Wide Financial Statements – The government-wide financial statements (statement of net assets and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the accrual basis of accounting. The difference between the accrual basis of accounting and modified accrual basis of accounting for these revenues is not material to the financial statements.

Shiawassee County Community Mental Health Authority  
Notes to the Financial Statements

---

Intergovernmental revenue, charges for services and other revenues associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at year end has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

**General Fund** – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Shiawassee County Community Mental Health Authority  
Notes to the Financial Statements

---

**Proprietary Funds**

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Comparative Data**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

**Budgetary Data**

The Authority adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

**Cash and Cash Equivalents**

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

**Receivables and Payables between Funds**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Shiawassee County Community Mental Health Authority  
Notes to the Financial Statements

---

**Receivables**

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

**Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Inventories**

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have any infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.



Shiawassee County Community Mental Health Authority  
Notes to the Financial Statements

---

Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Vehicles	3
Equipment and Furnishings	5-7
Computers	3
Buildings and Improvements	10-40
Land	Not Depreciated

### **Restricted Assets**

Cash has been restricted for future payment of the compensated absences liability. These restricted assets are held in a separate cash account with local financial institutions.

The Authority has established a cash reserve for capital purposes. See other note for additional information.

### **Inpatient / Residential Cost Liability**

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Authority.

### **Deferred Revenue**

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

### **Net Assets and Fund Balances**

Restricted net assets shown in the government-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental funds financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

Shiawassee County Community Mental Health Authority  
Notes To Financial Statements

---

Fund Balances - Reserves and Designations

Fund balances in the governmental funds financial statements are reported as reserved when a portion of fund balance is either:

- Not available for appropriation for expenditure, or
- Legally segregated for a specific future use.

Fund balances in the governmental funds financial statements may be reported as designated to reflect management's self-imposed limitations on the use of otherwise available financial resources. Designations represent management's intended use of resources and should reflect actual plans approved by them.

Net Assets - Restrictions

Net assets in the government-wide financial statements are reported as restricted when constraints placed on net assets use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

**MDCH Revenue**

*General Fund Revenue*

The Authority provides mental health services on behalf of the Michigan Department of Community Mental Health (MDCH). Currently, the Authority contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Shiawassee County.

*Medicaid Revenue*

Also, the Authority contracts to receive Medicaid revenue through Access Alliance of Michigan (AAM) for Medicaid-qualified services rendered to residents of Shiawassee County. AAM serves as the Pre-Paid Inpatient Health Plan (PIHP) for the area that includes Shiawassee County and they contract with the MDCH to administer these Medicaid funds.

Shiawassee County Community Mental Health Authority  
Notes to the Financial Statements

---

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

**Excess Of Expenditures Over Appropriations**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. Budgets for the budgetary funds were adopted at the functional level and have been presented at the functional level in this report.

During the current year the Authority incurred expenditures in excess of the amounts budgeted, as shown on the budget comparison schedule in the back of this report as unfavorable variances.

**NOTE 3 – DETAIL NOTES**

**Cash and Cash Equivalents**

At September 30<sup>th</sup> the carrying amount of the Authority's cash and cash investments are as follows:

<b>Cash and Cash Equivalents</b>	<b>2006</b>	<b>2005</b>
Petty Cash	\$930	\$1,670
Checking, Savings, & Money Market Accounts	2,568,033	2,811,201
Cert. of Deposit Restricted For Compensated Absences	232,582	225,432
Restricted For Capital Purposes	369,964	359,189
<b>Total</b>	<b>\$3,171,509</b>	<b>\$3,397,492</b>

Restricted Cash

The Authority has charged to the Department of Community Health, the vested portion of compensated absences as of September 30<sup>th</sup>. The Authority holds, in a separate bank account, funds set aside for the payment of compensated absences. The use of these funds is restricted to payment of compensated absences as they come due.

The Authority has established a reserve for capital purposes. See note for capital assets for additional information.

Shiawassee County Community Mental Health Authority  
Notes to the Financial Statements

---

*Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy for custodial risk over deposits.

As of the end of the current fiscal year, \$3,169,651 of the Authority's \$3,369,651 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Deposits which exceed FDIC insurance coverage limits are held at local banks. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits.

As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

*Investments*

State statutes authorize the Authority to invest surplus funds in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of the end of the current year, the Authority had no such investments.

The Authority's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

*Interest Rate Risk – Investments*

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Authority's investment policy complies with the State guidelines and seeks to minimize interest rate risk by investing primarily in short-term securities, liquid assets, money market funds, or similar investment pools and limiting average maturities.

The Authority's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Shiawassee County Community Mental Health Authority  
Notes to the Financial Statements

---

*Custodial Credit Risk – Investments*

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts.

The Authority does not have any additional policies for custodial credit risk over investments.

*Credit Risk - Investments*

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks.

The Authority's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

*Concentration of Credit Risk*

The Authority places no limit on the amount it may invest in any one issuer.

**Accounts Receivable**

Accounts receivable represents amounts due from third party payers, patients, and others.

Shiawassee County Community Mental Health Authority  
Notes to the Financial Statements

---

**Due from Other Governmental Units**

Due from other governmental units as of September 30th, consists of the following:

<b>Due From</b>	<b>2006</b>	<b>2005</b>
State Of Michigan – OBRA PAS/ARR	\$3,432	\$6,945
Bay-Arenac Behavioral Health - Medicaid	1,122,454	1,585,791
Tuscola Behavioral Health Services - TBS	-	18,127
Shiawassee County	-	50,000
Saginaw CMH – DBT Training	-	20,000
Other	2,197	60,000
<b>Total</b>	<b>\$1,128,083</b>	<b>\$1,740,863</b>

**Prepaids**

Prepaid expenses represent payments for the following expenses that will benefit future periods:

<b>Prepaid Expenses</b>	<b>2006</b>	<b>2005</b>
Insurance	\$38,944	\$30,574
Rent	22,666	23,477
Dues	8,927	9,027
Maintenance Agreements	5,499	6,331
Other	10,811	11,283
<b>Total</b>	<b>\$86,847</b>	<b>\$80,692</b>

Shiawassee County Community Mental Health Authority  
Notes to the Financial Statements

**Capital Assets**

A summary of changes in capital assets is as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
<b>CAPITAL ASSETS:</b>				
Vehicles	\$958,050	\$56,198	-	\$1,014,248
Equipment & Furnishings	997,818	19,330	-	1,017,148
Computers	520,519	-	-	520,519
Buildings and Improvements	43,179	-	-	43,179
Sub-total	2,519,566	75,528	-	2,595,094
<b>ACCUMULATED DEPR:</b>				
Vehicles	(835,705)	(66,234)	-	(901,939)
Equipment & Furnishings	(927,078)	(36,728)	-	(963,806)
Computers	(466,361)	(50,350)	-	(516,711)
Buildings and Improvements	(13,202)	(16,688)	-	(29,890)
Sub-total	(2,242,346)	(170,000)	-	(2,412,346)
<b>NET CAPITAL ASSETS</b>	<b>\$277,220</b>	<b>(\$94,472)</b>	<b>-</b>	<b>\$182,748</b>

Depreciation expense was charged to Health and Welfare – Mental Health Program.

The Authority has established a reserve for capital purposes, otherwise known in the Michigan Mental Health Code as funded depreciation. Amounts funded to this reserve are restricted for the purchase, replacement, or improvement of capital assets or the retirement of debt related to such capital purposes. The reserve was subsequently fully funded with revenue received for depreciation expense. The balance of this reserve as of September 30, 2006 and 2005 was \$369,964 and \$359,189, respectively.

**Deferred Revenue**

Deferred revenue represents amounts received in advance of the period in which they were earned as follows:

<b>Deferred Revenue</b>	<b>2006</b>	<b>2005</b>
State Of Michigan - DCH Risk Authorization	\$53,589	\$53,589
Capital Lease Proceeds	30,599	37,531
Other	11,445	10,814
<b>Total</b>	<b>\$95,633</b>	<b>\$101,934</b>

Shiawassee County Community Mental Health Authority  
Notes to the Financial Statements

**Due to Other Governmental Units**

Due to other governmental units as of September 30th, consist of the following:

<b>Due To</b>	<b>2006</b>	<b>2005</b>
State Of Michigan – DCH State Facility	\$145,965	\$105,867

**Accrued Wages and Other Payroll Liabilities**

This liability represents amounts paid to employees during October that was earned during September. Also included are related employer payroll taxes. In March of 2004 the board elected to become a Mental Health Authority and, as a result of that election, needed to decide whether to participate in social security or an alternative retirement plan. FICA and Medicare withheld during this time were held in an escrow account pending that decision. The following is a summary of this balance.

<b>Liability</b>	<b>2006</b>	<b>2005</b>
Accrued Wages	\$131,056	\$193,460
Accrued Payroll Taxes	9,957	14,306
FICA/Medicare Held in Escrow	-	950,141
Other	2,809	720
Total	\$143,822	\$1,158,627

**Operating Leases**

Shiawassee County Community Mental Health Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the financial statements.

The following is a schedule of future minimum rental payments required under the operating leases for the next five fiscal years that have initial or remaining noncancelable lease terms as of September 30, 2006:

<b>Year Ending September 30,</b>	<b>Amount</b>
2007	\$128,336
2008	43,934
2009	43,934
2010	43,934
2011-2014	106,308



Shiawassee County Community Mental Health Authority  
Notes to the Financial Statements

---

## Long-term Debt

### Compensated Absences

Employees earn paid time off (PTO) on a monthly basis. Employees in the Non-Supervisory Bargaining Unit are able to accumulate and carry forward 240 hours of PTO. Employees in the Supervisory Bargaining Unit, or who are not represented, are able to accumulate and carry forward 480 hours of PTO. All employees are able to be paid up to 120 hours of PTO per calendar year. Any accrued PTO is paid out upon termination of employment.

The accrued compensated absences liability at September 30, 2006 and 2005 was \$178,904 and \$222,879, respectively.

### **Capital Lease**

On November 27, 2002 the Authority entered into a lease agreement with Team Financial Group for the purpose of financing the purchase and installation of computer hardware and software as well as training and support services during the life of the lease agreement. The total amount financed was \$375,000 and the terms call for 48 monthly payments of \$9,085.

Only \$344,401 of the total proceeds has been disbursed as of September 30, 2006. Therefore, the remaining balance of \$30,599 will be deferred until the funds are disbursed.

The changes in the above lease are as follows:

<b>Beg. Bal. 10/01/05</b>	<b>Additions</b>	<b>Reductions</b>	<b>End. Bal. 9/30/06</b>
\$121,345	-	\$103,190	\$18,155

The annual debt service payment for the remaining life of the lease (including interest totaling \$15) is as follows:

<b>Year Ended September 30<sup>th</sup>,</b>	<b>Principle and Interest Due</b>
2007	\$18,170

Shiawassee County Community Mental Health Authority  
Notes to the Financial Statements

---

**Prior Period Adjustment**

Prior period adjustments represent the adjustment to fund balance due to the following:

<b>Adjustment</b>	<b>2006</b>	<b>2005</b>
Cost Settlement Adjustment FYE 9/04	-	(\$241,892)
Cost Settlement Adjustment FYE 9/03	-	(117,239)
Cost Settlement – AIS – FYE 9/98	-	497,695
Adjustment to General Fund Carry Forward – FYE 9/04	-	(81,505)
Reimbursement To Consumer	-	(525,545)
Cost Settlement Adjustment – ISF, 2005	\$15	-
Other	-	(552)
Total Increase (Decrease) To Net Assets	\$15	(\$469,038)

Prior period adjustments represent the adjustment to net assets due to the following:

<b>Adjustment</b>	<b>2006</b>	<b>2005</b>
Cost Settlement Adjustment FYE 9/04	-	(\$241,892)
Cost Settlement Adjustment FYE 9/03	-	(117,239)
Cost Settlement – AIS – FYE 9/98	-	497,695
Adjustment to General Fund Carry Forward – FYE 9/04	-	(81,505)
Reimbursement To Consumer	-	(525,545)
Total Increase (Decrease) To Net Assets	-	(\$468,486)

**Restrictions and Reserves**

A portion of the fund balance at September 30<sup>th</sup> has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

A portion of fund balance has been designated by the Authority to be used for future improvements and/or acquisition of major capital assets.

A portion of the net assets has been restricted equal to the net amount available in the Internal Service Fund which has been set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Shiawassee County Community Mental Health Authority  
Notes to the Financial Statements

---

**Transfers Between Funds**

The Authority transferred \$30,505 from the Internal Service Fund to the General Fund during the fiscal year. The transfer is in accordance with the criteria established by the Michigan Department of Community Health to meet expected future risk corridor requirements of the managed care specialty supports and services program contracts.

**NOTE 4 - OTHER INFORMATION**

**Compliance Audits**

The Authority participates in various federal, state, and local grants for mental health programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

**Pension Plan**

Plan Description

The Authority is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides for the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty death allowance, duty death allowance, and post-retirement adjustments to plan members and their beneficiaries.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Prior to August 8, 1997, the Authority offered one defined benefit plan to all regular full and part time employees with the Municipal Employees Retirement System. The Plan provided a C-2 (B-1) benefit, which is defined as a 2% factor of final average compensation multiplied by credited service payable until attainment of the age at which unreduced Social Security benefits are available (age 65 for normal retirement). Upon attainment of this age, the benefit reverts to a 1.7% multiplier factor. The plan provided for normal retirement at age 60 with ten years of service credit.

Shiawassee County Community Mental Health Authority  
Notes to the Financial Statements

---

Early retirement was available to employees who were 50 years of age with 25 years of service, or 55 years of age with 15 years of service. If early retirement was selected, the full retirement benefit was reduced by  $\frac{1}{2}$  of 1% for every month the employee was under age 60, unless the Authority adopted a resolution to waive the reduction in retirement benefits.

Effective August 8, 1997, the Authority approved an additional plan in the Municipal Employees Retirement System for Supervisory Bargaining Unit employees which are comprised of all managerial and senior administrative staff. The plan provides a B-2 benefit, which is defined as a 2% factor of final average compensation multiplied by the credited service payable for the entire retirement period. The definitions of normal and early retirement remain the same as those noted above.

Effective October 30, 1997, the Authority approved a change in benefits for all employees not covered in the Supervisory Bargaining Unit plan. Instead of requiring ten years of vesting to be eligible for benefits, the plan now requires six years of service for benefit eligibility. The plan definitions for ages of normal and early retirement continue to remain the same. Required credited years of service also remain the same for the employees opting early retirement.

Effective September 25, 2000, the Authority approved a change in benefits for all employees not covered in the Supervisory Bargaining Unit Plan. Instead of C-2 (B-1) V6, the plan is B-2 V6 for employees hired on or before September 25, 2000 and B-2 V10 for employees hired after September 25, 2000.

Funding Policy

The pension expense for the year ending September 30, 2006 and 2005 was \$295,355 and \$403,415, respectively. This represents an actuarially determined charge for the Authority's pension costs. The Authority has no additional liability beyond these contributions.

Shiawassee County Community Mental Health Authority  
Notes to the Financial Statements

---

**GASB 25 INFORMATION (as of 12/31/05)**

Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$2,262,834
Terminated employees not yet receiving benefits	1,104,042
Non-vested terminated employees	0
Current employees-	
Accumulated employee contributions including	
Allocated investment income	35,524
Employer financed	<u>3,639,892</u>
Total Actuarial Accrued Liability	<u>7,042,292</u>
Net Assets Available for Benefits At Actuarial Value	<u>6,944,966</u>
(Market Value is \$6,761,961)	

Unfunded (Overfunded) Actuarial Accrued Liability	\$97,326
---	----------

**GASB 27 INFORMATION (as of 12/31/05)**

Fiscal Year Beginning	October 1, 2007
Annual Required Contributions (ARC)	\$240,048
Amortization Factor Used – Underfunded Liabilities (30 years)	.053632
Amortization Factor Used – Overfunded Liabilities (10 years)	.119963

**Risk Management**

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority has purchased commercial insurance from independent insurance providers for professional liability. Settled claims, if any, for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

The Authority also participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage. The Authority is also subject to additional risk associated with the Managed Care Specialty Supports and Services Contract as further explained in the note below.

Shiawassee County Community Mental Health Authority  
Notes to the Financial Statements

---

The MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities. As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, or each occurrence that falls within the member's self-insured retention.

If a covered loss exceeds the Authority's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits include \$15,000,000 for liability and \$1,500,000 for vehicle physical damage. The contribution made by the Authority to the MMRMA was \$73,956 for the fiscal year ended September 30, 2006.

### **Managed Care Risk Contract**

The Authority has a managed care risk contract with the State of Michigan for State General Fund Formula Funding for priority populations. The Authority self-insures the risk for this contract with an Internal Service Fund risk reserve. The State General Fund risk contract and reserve covers only the Authority's specific service area. The contract provides for the use of contract funds to establish the risk reserve that is restricted to meet future risk obligations. Expenditures from the Internal Service Fund risk reserve may occur if, in any one fiscal year, the Authority finds it necessary to expend more than its then current resources to provide contractually obligated supports and services for eligible individuals.

### **Post-Retirement Benefits**

The Mental Health Authority provides post-retirement health care benefits to all employees who retire at age 65 and who are vested in the employer's retirement plan under the Municipal Employees Retirement System. A \$275 deductible is to be paid by the retired employee. The benefits are funded on a pay-as-you-go basis.

### **Economic Dependency**

Revenues paid either directly or indirectly by the Michigan Department of Community Health represent over 90% of the Authority's total revenues.

# **REQUIRED SUPPLEMENTAL INFORMATION**

## **BUDGETARY COMPARISON SCHEDULE**

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDING SEPTEMBER 30, 2006

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variances Between Actual and Final Budget
	Original	Final		
<b>REVENUES</b>				
State Grants				
State General Fund - DCH Contract	\$1,654,384	\$1,706,543	\$1,713,854	\$7,311
Adult Benefit Waiver	270,000	225,000	229,652	4,652
MI Child	13,000	14,000	14,414	414
Tobacco Tax	10,214	5,485	5,485	-
Homeless Housing	2,600	2,600	1,930	(670)
Title XX	7,277	7,277	7,277	-
Total State Grants	<u>1,957,475</u>	<u>1,960,905</u>	<u>1,972,612</u>	<u>11,707</u>
Federal Grants				
Wraparound	87,000	87,000	87,461	461
Drop-In Center	6,660	6,660	6,660	-
Respite Services	-	3,795	2,398	(1,397)
PAS / ARR	15,000	6,000	6,300	300
Total Federal Grants	<u>108,660</u>	<u>103,455</u>	<u>102,819</u>	<u>(636)</u>
Contributions - Local Units				
County Appropriations	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>
Total Contributions - Local Units	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>
Charges For Services				
Medicaid - Affiliate Contract	10,263,076	10,302,549	9,884,690	(417,859)
Client And Third Party Pay	<u>72,000</u>	<u>133,855</u>	<u>187,655</u>	<u>53,800</u>
Total Charges For Services	<u>10,335,076</u>	<u>10,436,404</u>	<u>10,072,345</u>	<u>(364,059)</u>
Interest And Rents				
Rents	91,500	91,500	62,014	(29,486)
Interest	<u>50,500</u>	<u>75,500</u>	<u>92,725</u>	<u>17,225</u>
Total Interest And Rents	<u>142,000</u>	<u>167,000</u>	<u>154,739</u>	<u>(12,261)</u>
Other Revenue	<u>31,420</u>	<u>23,420</u>	<u>69,830</u>	<u>46,410</u>
Total Revenues	<u>12,774,631</u>	<u>12,891,184</u>	<u>12,572,345</u>	<u>(318,839)</u>

The notes to the financial statements are an integral part of this statement.



SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)  
FOR THE YEAR ENDING SEPTEMBER 30, 2006

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variances Between Actual and Final Budget
	Original	Final		
<b>EXPENDITURES</b>				
Health & Welfare - Mental Health				
Personnel Costs	\$5,879,160	\$6,006,312	\$5,734,409	\$271,903
Operating Expenditures	6,852,229	7,044,431	6,595,504	448,927
Debt Service-Principal	-	13,522	103,190	(89,668)
Debt Service-Interest	5,673	7,373	5,930	1,443
Capital Outlay	170,588	170,588	75,528	95,060
Total Expenditures	12,907,650	13,242,226	12,514,561	727,665
Excess Of Revenues Over Expenditures	(133,019)	(351,042)	57,784	408,826
Other Financing Sources (Uses)				
Operating Transfers In(Out) - Transfers To Affiliates	(163,740)	-	(163,739)	(163,739)
Operating Transfers In(Out) - Internal Service Fund	-	-	30,505	30,505
Excess Of Revenues And Other Sources Over Expenditures And Other Uses	(296,759)	(351,042)	(75,450)	275,592
Fund Balance, October 1	3,130,985	3,130,985	3,130,985	-
Prior Period Adjustments	-	-	15	15
Fund Balance, September 30	<u>\$2,834,226</u>	<u>\$2,779,943</u>	<u>\$3,055,550</u>	<u>\$275,607</u>

The notes to the financial statements are an integral part of this statement.

## **OTHER SUPPLEMENTAL INFORMATION**

### INDIVIDUAL FUND STATEMENTS

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF PERSONNEL EXPENDITURES  
FOR THE YEARS ENDING SEPTEMBER 30, 2006 AND 2005

---

	General Fund	
	2006	2005
<b>Personnel Expenditures</b>		
Salaries And Wages	\$3,994,736	\$5,221,526
Fringe Benefits	<u>1,739,673</u>	<u>1,981,026</u>
Total Personnel Expenditures	<u><u>\$5,734,409</u></u>	<u><u>\$7,202,552</u></u>

The notes to the financial statements are an integral part of this statement.

SHIAWASSEE COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF OPERATING EXPENDITURES  
FOR THE YEARS ENDING SEPTEMBER 30, 2006 AND 2005

	General Fund	
	2006	2005
<b>Operating Expenditures</b>		
Advertising	\$1,136	\$5,181
Books and Publications	4,271	2,645
Board Per Diem	11,513	12,665
Communications	31,068	65,509
Conferences	23,146	24,449
Contracted Services and Professional Fees	3,667,737	1,722,564
Consumer Activities & Services	30,391	36,843
Consumer Transportation	477	828
Dues	17,261	12,798
Insurance and Bonds	82,049	74,685
Janitorial	11,719	17,412
Legal, Accounting, and Auditing	49,455	177,826
Miscellaneous	8,558	33,048
Office Supplies	49,191	57,547
Operating Expenses	23,625	-
Postage	9,357	12,265
Printing and Microfilm	-	172
Recruitment	6,197	7,853
Rent - Buildings	258,052	318,680
Rent - Equipment	1,178	854
Repairs and Maintenance - Building	32,949	45,683
Repairs and Maintenance - Equipment	8,914	33,415
Residential Group Home Providers	707,492	957,195
Small Equipment and Furniture	14,969	10,371
State/Local Inpatient	1,289,220	1,068,097
Temporary Labor	71,339	133,414
Training	17,963	16,342
Travel - Board	2,231	7,070
Travel - Staff	33,495	25,229
Utilities	61,287	13,415
Vehicle Gas & Oil	39,843	48,677
Vehicle Repairs & Maintenance	29,421	45,596
<b>Total Operating Expenditures</b>	<b>\$6,595,504</b>	<b>\$4,988,328</b>

The notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Shiawassee County Community Mental Health Services Authority  
Owosso, Michigan

We have audited the financial statements of the governmental activities and each major fund of Shiawassee County Community Mental Health Services Authority (the Authority) as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements, and have issued our report thereon, dated January 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

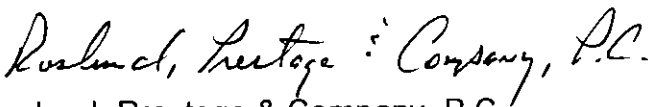
## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we have reported to management of the Authority in a separate letter dated January 4, 2007.

This report is intended solely for the information and use of the audit committee, management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Roslund, Prestage & Company, P.C.  
Certified Public Accountants

January 4, 2007



## MANAGEMENT LETTER

Shiawassee County Community Mental Health Authority  
Owosso, Michigan

In planning and performing our audit of the financial statements for Shiawassee County Community Mental Health Authority for the fiscal year ended September 30, 2006, we considered the internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our audit report dated January 4, 2007 on the financial statements of Shiawassee County Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We wish to thank the accounting and administrative staff for their support and assistance during our audit.

Sincerely,

*Roslund, Prestage & Company P.C.*

Roslund, Prestage & Company, P.C.  
Certified Public Accountants

January 4, 2007

Shiawassee County Community Mental Health Authority  
Management Letter

**STATUS OF PRIOR YEAR COMMENTS AND RECOMMENDATIONS**

We were pleased to see that management has implemented many of the recommendations we included in our previously issued Management Letter. We commend you on your efforts to strengthen internal controls and operating efficiencies.

We have listed below the comments and related recommendations we included in our previously issued Management Letter in which the recommendations we suggested, or an appropriate alternative, have not been fully implemented as of the date of this report.

**Budget**

*Prior Year Comment and Recommendation*

Budget-To-Actual statements are required to be presented in the audit report on the modified accrual basis. Budgets often are prepared to comply with the reporting format requested by the Department of Community Health and may include items that are found in both the full accrual and modified accrual basis (i.e., principal payments, capital outlay, depreciation, compensated absences, gains and losses on disposal of assets, loan proceeds).

We recommend that management review, and modify if necessary, the annual budget to assure that it is prepared on the modified accrual basis for presentation in the annual audit report. This budget should then be adopted by the board in addition to, if necessary, any other budgets adopted on another basis.

*Current Status*

The recommendation we suggested in our previously issued Management Letter has not been fully implemented as of the date of this report.

**CURRENT YEAR COMMENTS AND RECOMMENDATIONS**

**Depreciation Schedule**

During our review of fixed assets we also found that the Authority does not have a computerized system in place specifically designed for fixed asset recordkeeping and for calculating depreciation.

We recommend that management consider using a depreciation software package. Such software will assist in keeping the depreciation accurate and up-to-date because the software calculates the depreciation automatically, tracks additions or disposals, and calculates gains or losses on disposals.



## Shiawassee County Community Mental Health Authority Management Letter

### **Review Vendor Lists**

We recommend that management periodically review vendor lists for any unusual patterns, such as names that may be similar, but not identical to the names of approved vendors and vendors that have multiple addresses. In addition, the person periodically should inspect files of unpaid invoices and vendor statements to look for invoices that appear different from the norm; consecutive vendor invoice numbers; preprinted and not customized forms; different delivery addresses; different telephone numbers, purchase order numbers, item descriptions, prices, or other unusual patterns; old or unusual vendors who recently had an address change; or current activity on an old or outdated vendor. Such a review can detect possible fraud involving accounts payable.

If the validity of a vendor is questioned, an appropriate person should take steps to verify the vendor's existence. Perhaps the most effective way to verify a vendor is to call the vendor and visit the vendor's facilities.

Alternatively, an appropriate person can consult other information sources, such as the Better Business Bureau, credit reporting companies (such as Dunn & Bradstreet), crisscross and telephone directories, secretary of state incorporation records, or local partnership and assumed name records.

### **Charge Card Policy**

Governmental units in Michigan are required to adopt, by Board resolution, a written policy regarding charge card use that is in compliance with Public Act 266 of 1995. Shiawassee County Community Mental Health has a charge card policy in place that meets some, but not all, of the requirements.

We have provided management a copy of Letter No. 2-96 from the Department of Treasury that outlines the requirements of Public Act 266 of 1995. We recommend that the charge card policy be reviewed and amended, as necessary, to include all the requirements as noted in the letter.

### **Old Outstanding Checks**

During our audit we noted that some old outstanding checks are being carried on monthly cash reconciliations. This causes additional time to be spent by personnel to reconcile the bank accounts each month.

We recommend that checks and other uncleared reconciling items that are over one year old be investigated and removed from the bank reconciliation and that the original transaction be reversed.

Shiawassee County Community Mental Health Authority  
Management Letter

**Capital Lease**

On November 27, 2002 the Authority entered into a lease agreement with Team Financial Group for the purpose of financing the purchase and installation of computer hardware and software as well as training and support services during the life of the lease agreement. The total amount financed was \$375,000.

Only \$344,401 of the total proceeds has been disbursed as of September 30, 2006. We recommend that the remaining \$30,599 be disbursed in accordance with the original purpose for which the capital lease was obtained by the end of the next fiscal year.